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C O N F I D E N T I A L SECTION 01 OF 02 MOSCOW 001146

SIPDIS

DEPT FOR EUR/RUS, FOR EEB/ESC/IEC GALLOGLY AND WRIGHT, AND
FOR S/EEE MORNINGSTAR

DOE FOR HEGBURG, EKIMOFF

DOC FOR JBROUGH

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SUBJECT: RUSSIA AND BULGARIA INITIAL SOUTH STREAM
AGREEMENT; DETAILS STILL LACKING; DELAYS STILL LIKELY

Classified By: Econ MC Eric T. Schultz for Reasons 1.4 (b/d)

SUMMARY

¶11. (SBU) Gazprom and Bulgarian Energy Holding initialed an agreement on South Stream during the April 29 visit of PM Stanishev to Moscow, but the two sides are reportedly still working on the details of the agreement. PMs Stanishev and Putin publicly hinted at some of the tensions over South Stream and the bilateral relationship in general, but did note "constructive" discussions, including on the Belene Nuclear Power Plant and the Burgas-Alexandroupolis oil pipeline. We hope to learn more about the South Stream agreement as details emerge, but we still regard the project as unlikely to be completed anytime close to the 2013 date suggested by Gazprom, if ever. End summary.

AGREEMENT "INITIALED"

¶12. (SBU) According to Ivan Zolotov, Gazprom's Director of Foreign Relations, representatives of Gazprom and Bulgarian Energy Holding initialed an agreement on the portion of the South Stream pipeline proposed to be built on Bulgarian territory. The signing on April 29 coincided with the official visit of Bulgarian PM Stanishev to Moscow. The agreement calls for a new and supplemental pipeline, providing additional gas to and through Bulgaria. Zolotov conveyed no sense of tension in the negotiations, which he said had been on-going since the signing of an inter-governmental agreement on South Stream in January 2008.

He said the agreement, details of which "are still being worked out," would be signed in Sochi on May 15.

¶13. (C) The Bulgarian Embassy's Deputy Head of the Trade and Economic Office, Ivan Kerev, told us on April 29 that the two companies initialed what was essentially "a political agreement" the details of which -- "all the when, where, how, how much" -- would now be hammered out by experts from both sides. He said Bulgaria had two main priorities: that the project company be owned 50-50, without Gazprom having a majority, and that the pipeline represent new gas and infrastructure, in contrast to Gazprom's interest in shipping South Stream gas through existing Bulgarian pipelines. According to Kerev, both these provisions are in the agreement, although this cannot be verified as the agreement

is not public. Kerev did not know whether the document would be publicly released, saying "that is up to the companies."

PUTIN AND STANISHEV COMMENTS

14. (SBU) PMs Putin and Stanishev noted during their post meeting press conference that South Stream discussions made up the bulk of the bilateral talks, but revealed no other details. Both suggested that "problems" had been overcome in reaching agreement on South Stream, with Putin saying the problems were simply "technical, at the corporate level," and Stanishev saying that Bulgaria's "wishes were taken into account." Some tensions were evident as Putin joked that the two dealt with tensions "easily and spontaneously...," adding they "did not even notice any tensions." Each also appeared to take slight jabs at the other. Putin said he "blushes" to mention (for the second time in two days) that Bulgarian investments in Russia amount to only \$13 million, while Russian investments in Bulgaria total \$850 million. Stanishev, for his part, directly refuted Putin's claim that South Stream was an idea floated by Bulgaria, saying he "distinctly remembers" then-President Putin initiating talks on South Stream.

15. (SBU) Despite these tensions, both Putin and Stanishev praised the bilateral relationship. They noted that they conducted a "constructive" dialogue on a variety of other issues, such as construction of the Belene nuclear plant in Bulgaria and the Burgas-Alexandroupolis oil pipeline. Once

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again, their statements lacked details on the exact content of the talks or on any resolutions reached.

COMMENT

16. (C) We hope to get more information on the South Stream agreement as the details are worked out. Whether that happens in the next two weeks, despite Russian optimism, seems questionable. Moreover, we continue to doubt there could be any real progress anytime soon on constructing the pipeline, which by Gazprom's own estimates would cost 24 billion euros, at a time of collapsed demand and extremely tight financial markets. It is likely that South Stream will be completed, if ever, long after the proposed 2013 date that Gazprom continues to claim.

BEYRLE